May 2, 2008

The Honorable Mary E. Peters
Secretary of Transportation
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Dear Secretary Peters:

In response to your April 18, 2008 letter to Gerard Arpey, I appreciate the opportunity to provide this report concerning the grounding of our MD-80 fleet during the period April 8 through April 12. We are painfully aware of the impact that this event had on our nation's air transportation system, our company, and most importantly, our passengers. At the same time, we are in full agreement that safety is our first priority. With those two facts in mind, we believe that it is possible to improve the process by which the FAA carries out its oversight responsibilities, and to improve the process by which air carriers implement airworthiness directives, while minimizing the impact on the air transportation system and the traveling public.

Although American's review of this matter is ongoing, I want to provide you with our best information as of this date. We would welcome the opportunity to meet with you and your staff to follow up on this report and the FAA's report in the future.

At the outset, I want to emphasize four key points:

- At no time has there been any safety of flight issue with regard to American's MD-80 fleet as a result of its compliance with this Airworthiness Directive ("AD").

- American was the lead airline working with Boeing to develop the Service Bulletin that is the subject of the AD in question. Due to manufacturer differences in aircraft within the MD-80 family, implementation of the AD was not a "one size fits all" proposition, and American's process for implementing this AD was the same process we have used for the implementation of hundreds of ADs over decades of service.

- The groundings in this instance occurred because FAA Southwest Region officials repeatedly told American that they intended to ground the MD-80 fleet if American did not do so immediately.

- There is a clear need for improvements in several areas:
    - communication between the FAA and American at all levels, particularly at a senior level;
    - improvements in the processes for drafting, reviewing and implementing Service Bulletins and ADs; and
    - most importantly, a need for a clear, formal procedural path to resolve concerns raised at the FAA inspector level.

The report below sets forth the background of American's compliance with the AD, the facts relating to the FAA's inspections of MD-80 aircraft, and the facts relating to the groundings of our MD-80 fleet. The report concludes with our suggestions as to steps that can be taken by American and the FAA to prevent a recurrence of the problems that led to the groundings.

The FAA's Review Of American's Compliance With MD-80 Airworthiness Directive (AD 2006-15-15)

The Airworthiness Directive at issue, AD-2006-15-15, became effective September 5, 2006, and required compliance on or before March 5, 2008. However, well before that time, American had been working to address the safety issues that had precipitated the issuance of the AD.

In 2004, three operators of MD-80s reported three instances of shorted electrical wires in the right wheel-well, with evidence of arcing on the auxiliary hydraulic pump power cables. At no time did any American MD-80 experience such problems. Subsequently, Boeing issued a Service Bulletin recommending that all MD-80 operators take a number of corrective actions, including the installation of a sleeve of flame retardant material to cover the auxiliary hydraulic pump wiring harness. The covering was intended to prevent chafing and potential arcing in the wheel-well, which is in the vicinity of the MD-80 fuel tank. As the largest and most experienced operator of MD-80 aircraft, American worked directly with Boeing to develop this Service Bulletin. Thus, by the time the AD was issued, American had already begun implementing the Service Bulletin recommendations.

Service Bulletins and ADs, including those involved here, are not necessarily "one size fits all." This is particularly true in connection with the MD-80 family, which has a wide variety of configurations within the same aircraft type. At American, we routinely implement Service Bulletins and ADs, by issuing Engineering Change Orders ("ECOs"). ECOs are prepared by our Engineering Department and provide specific instructions to our licensed aviation maintenance technicians ("AMTs") to ensure compliance with the directions in a particular Service Bulletin or AD. Each ECO is tailored to a specific aircraft model. Thus, for example, since not all MD-80 right wheel-wells are configured in exactly the same way, our engineers and licensed AMT's exercise their best technical judgment as to aircraft-specific implementation based on the intent of the Service Bulletin and the AD, their experience with the MD-80 fleet, and the actual configuration found in our MD-80 aircraft. Since we operate the largest aircraft fleet in the world and a

large number of aircraft of a single type (for example our 300 MD-80's), we generally lead the industry in incorporating Service Bulletins to ensure that we are able to meet subsequent AD compliance dates. This practice has been the standard at American for many years.

MD-80 Groundings During the Week of March 24

On March 13, 2008, following the public disclosure of Southwest's AD compliance issues, the FAA issued its Notice directing FAA inspectors to conduct a Special Emphasis Validation of Airworthiness Directives Oversight. Thereafter, beginning the week of March 24, local FAA inspectors conducted a review of a total of 60 ADs, which consisted of 10 ADs per aircraft type in our fleet. In reviewing American's compliance with MD-80 ADs, an FAA Southwest Region inspector noted 16 potential issues regarding implementation of AD 2006-15-15. Based on his review, the FAA inspector informed American maintenance personnel that the FAA "could not condone further operation of the fleet." However, in discussions with other FAA Southwest Region officials and inspectors, we were told repeatedly that "this audit has nothing to do with safety of flight issues; this is about compliance."

In response to the FAA inspector's issues, American immediately developed a plan to inspect its entire MD-80 fleet to ensure that the root safety issue of the AD – chafing of the wiring bundle – was not present on any of our aircraft. We also instructed our AMT's to pay particular attention to the specific issues that were raised by the FAA inspector. Because these inspections and corrections took several hours for each aircraft, we were forced to cancel 457 flights on March 26 and 27. During the course of discussions with local FAA officials, four of the 16 concerns raised by the Southwest Region inspector were resolved at the local level, and we agreed to send engineers to the FAA's Los Angeles Aircraft Certification Office ("ACO") to resolve the remaining 12 concerns. After reviewing the 12 remaining issues, the ACO determined that 11 did not require any action, and approved American's request for an Alternate Means of Compliance ("AMOC") for the sole remaining issue. American was aware that Delta had encountered similar issues and had sought an AMOC to cover the corrective action. With the resolution of the remaining 11 concerns and an approved AMOC, American quickly completed the inspection of its remaining MD-80 fleet on the morning of March 28, 2008.

MD-80 Groundings During Week Of April 7

On Monday, April 7, 2008, the same FAA Southwest Region inspector re-inspected nine of our MD-80 aircraft at DFW. Based on those inspections, he raised additional issues regarding American's implementation of AD 2006-15-15. In response, representatives from American's Maintenance and Safety Department met with personnel from the FAA's Southwest Region Certificate Management Office ("CMO") late that afternoon. American personnel explained that there was no safety of flight issue, as we had just completed the inspections of all of our aircraft for any wire chafing. Nevertheless, American presented a proposed plan for reinspection of American's entire MD-80 fleet during the next seven days, and if required, implementation of immediate corrective action. The FAA officials expressed no objections to this plan. To the

contrary, they expressed appreciation for American's prompt action to address these new issues.

Following the meeting, American began the process of scheduling sufficient maintenance, quality assurance and engineering personnel to complete the reinspection of the MD-80 fleet within seven days. American also began a process of seeking approval from the FAA Southwest Region and the ACO for any necessary AMOCs, many of them similar to approvals obtained previously by other MD-80 operators. American believed its plan could have been accomplished with minimal disruption to the public and with no adverse impact on safety.

The next day, April 8, events unfolded rapidly and unpredictably. That morning, American's Vice President for Safety, Security and Environmental, Peggy Sterling, received a letter dated April 7 from an FAA Southwest Region official, stating that the FAA "can not condone the operation of unairworthy aircraft under any circumstance." The FAA confirmed that position at approximately 10:00 a.m. (CDT), during a telephone call from another FAA Southwest Region official to me, American's Executive Vice President for Operations. The FAA official wanted to know how we proposed to address the AD issues that had been discussed the previous afternoon. I asked why the FAA had apparently rejected the plan that had been presented the preceding day since there were no safety of flight issues involved. The FAA official's response was that the plan presented on April 7 was not acceptable due to the high number of aircraft with compliance issues. In response to this information, I directed my staff to develop a new plan, and to do so as expeditiously as possible.

Thereafter, Fran Heil, a senior attorney in American's Washington, D.C. office, received a telephone call from an attorney in the FAA's Southwest Regional Counsel's Office. Mr. Heil was told that 15 of 19 MD-80 aircraft inspected that morning at DFW were not in compliance. Mr. Heil was also told that additional FAA inspectors would arrive at DFW at 1:15 p.m. (CDT) to conduct further inspections, and that, based on the inspector's findings at that time, the FAA was prepared to take action to ground our entire MD-80 fleet. Mr. Heil relayed this information to American's senior management. Less than two hours later, Mr. Heil received another call from the same FAA attorney who stated: "You need to put those aircraft on the ground." Mr. Heil was told that the FAA was prepared to exercise its authority to ground our MD-80 fleet if we did not do so voluntarily.

Subsequently, at about 2:00 p.m. (CDT), Captain Mark Hettermann, our Vice President of Flight, received a call from an FAA Southwest Region official, who inquired as to American's compliance plan for its MD-80 fleet, and stated that the FAA was prepared to exercise its authority to ground the entire MD-80 fleet immediately. Faced with a clear message from FAA Southwest Region officials that a formal grounding order was imminent, I instructed American's personnel to ground American's fleet of MD-80 aircraft in a safe but expeditious manner.

Immediately following the grounding of the aircraft and, in one final attempt to mitigate the disruption to the public, American (working with Boeing and the ACO), proposed an AMOC to the FAA Southwest Region that provided that American would immediately re-inspect its MD-80s for the six critical areas that related to the AD (chafing

of the wire bundles) and would address other aspects of the Service Bulletin within 30 days. The proposed AMOC would have dramatically reduced the number of flight cancellations. That AMOC was denied.

On Friday, April 11, American received approval for 28 AMOCs. By then, however, the majority of the MD-80 fleet had already undergone inspection and modification for adjustments necessary to conform to the issues raised by the FAA inspector. Our fleet of MD-80s was fully returned to service by Saturday afternoon, and we began flying a full passenger schedule on Sunday, April 13.

The MD-80 aircraft represents 46 % of American's total fleet. MD-80 flights constitute approximately 56 % of American's total daily flights system-wide, and more than 65 % of American's domestic flight operations. Because the FAA effectively forced the immediate grounding of the entire MD-80 fleet, more than 3,000 flights were cancelled over a four-day period, affecting approximately 350,000 passengers.

Suggestions To Avoid Recurrence

The foregoing review of the facts is important to gain an understanding of what led to the grounding of American's MD-80 fleet. However, we do not believe it is productive at this point to point fingers. The goal of our review has been to accurately assess, from American's viewpoint, the factors that resulted in the grounding. In our view, the root cause of the fleet grounding was a communications failure within the FAA and between the FAA and American. Here, an individual inspector's concerns regarding the methodology used to implement an AD led to the immediate grounding of a large fleet of aircraft. We believe that we can work constructively with you, the FAA and the industry to improve the AD process and communications with the FAA to prevent a recurrence in the future.

We recognize and respect that the FAA has oversight responsibility of our flight operations. That said, we do not believe that the issues identified by the FAA inspector on April 7-8, constituted a safety issue that warranted the grounding of our entire MD-80 fleet. In our view, the safety of our MD-80 fleet was never at issue, and the safety of our passengers was never compromised. Nevertheless, we understand the FAA's need to ensure full compliance with ADs, and we have taken certain steps, and recommended certain actions by the FAA, as suggested below, to prevent similar incidents in the future.

First, American has contracted with a highly-respected, independent third-party aviation consulting firm to evaluate our procedures for implementing and documenting compliance with ADs. The consulting firm will also review American's Internal Evaluation Program ("IEP") for the same purpose. Those reviews, which are currently in progress, will include American personnel at all levels, and will include a hands-on inspection of aircraft.

Second, American's Engineering Department will work with original equipment manufacturers and appropriate FAA officials to provide improvements and appropriate flexibility where warranted and necessary in the accomplishment of a Service Bulletin or Airworthiness Directive. In particular, we recommend that a clear and orderly process

be established for differentiating between safety issues and non-critical areas in Service Bulletins and Airworthiness Directives. To identify potential issues in advance, American's Engineering Department will take an active role in commenting on drafts of Service Bulletins and ADs to attempt to resolve technical issues in advance of the issuance of a directive or bulletin.

Third, American suggests that the FAA review its AD process and the relevant regulations to centralize and standardize the processes used for inspections, review of AMOC requests, and airworthiness determinations. We suggest that the FAA form a "best practices" committee, including safety experts and representatives of aircraft manufacturers and air carriers, with the goal of reviewing and, redesigning the Service Bulletin/AD process. We also believe that improvements to the AMOC approval process are warranted. In particular, the FAA should provide for a prompt review of AMOCs and, when applicable, approval of those AMOCs for use by the entire industry rather than operator-specific approvals.

Fourth, we suggest that the FAA institute a written process, such as that specified in FAR 119.51, for expeditiously determining whether the manner of implementation of an Airworthiness Directive presents safety issues that warrant grounding an aircraft or fleet. Such a process should include a prompt determination of the degree of seriousness of a particular issue.

Fifth, American suggests that the FAA consider development of a communications protocol that can be implemented to prevent problems like those that occurred on April 8. We recognize that good communications are a "two-way street," and we pledge to do our best to maintain open communication channels. However, when the FAA's proposed actions would ground an entire fleet of aircraft and result in a serious impact on the national transportation system, it is vital that communications between and among the highest levels of the Department of Transportation, the FAA and the affected carrier take place. The communications protocol should provide an orderly process for the DOT, the FAA, and the affected air carriers to discuss the specifics of a compliance issue, its magnitude and the most effective means of dealing with it safely and expeditiously. We would welcome the opportunity to work with you and your staff to develop such a communications protocol.

Finally, I want to assure you that, throughout its history, American Airlines has always made safety of flight its top priority. You can be confident that we will always continue to do so. We are committed to maintaining a professional and constructive relationship with the FAA, and we look forward to working with you and the FAA to ensure that similar events do not occur in the future.

Very truly yours,